

**RHS MULTI-FAMILY HOUSING
PROJECT SERVICING HANDBOOK**

TABLE OF CONTENTS

	<u>Page</u>
CHAPTER 1: INTRODUCTION.....	1-1
Section 1: Introduction to the Project Servicing Handbook	
1.1 About This Handbook.....	1-1
1.2 Companion Multi-Family Housing Handbooks.....	1-1
1.3 Using This Handbook	1-2
Section 2: Overview of the Agency's Multi-Family Housing Programs	
1.4 Goals of RHS Multi-Family Housing Programs.....	1-5
1.5 SECTION 515 Program—An Overview	1-5
1.6 SECTION 514 Program—An Overview	1-5
Section 3: General Program Requirements	
1.7 Civil Rights	1-7
1.8 Reviews and Appeals.....	1-8
1.9 Conflict of Interest.....	1-10
1.10 Other Federal Requirements	1-11
1.11 Exception Authority	1-12
Attachment 1-A Equal Credit Opportunity Act	
CHAPTER 2: MULTI-FAMILY HOUSING PROGRAMS AND LOAN SERVICING ..	2-1
2.1 Introduction.....	2-1
Section 1: Section 515 Program	
2.2 Overview.....	2-1
2.3 Types of Projects.....	2-1
2.4 Types of Loans.....	2-3
2.5 Agency Rental Assistance.....	2-5
2.6 Preference for Projects That Leverage Other Funds	2-5
Section 2: Section 514/516 Program	
2.7 Types of Projects.....	2-7
2.8 Loans and Grants	2-7
2.9 Rental Assistance.....	2-8
2.10 Preference for Projects That Leverage Other Funds	2-8
Section 3: Overview of Multi-Family Project Servicing	
2.11 Key Project Servicing Activities and This Handbook	2-9

2.12	Project Servicing Procedures for Multi-Family Housing Projects	2-9
CHAPTER 3: AUTOMATED SYSTEMS.....		3-1
3.1	Introduction.....	3-1
3.2	Industry Interface	3-1
3.3	Automated Multi-Family Housing Accounting System (AMAS)	3-3
3.4	Multi-Family Integrated System (MFIS).....	3-7
3.5	Prepayment Tracking and Concurrence (Pre-Trac)	3-10
3.6	Further Information.....	3-10
CHAPTER 4: ACCOUNT SERVICING.....		4-1
4.1	Introduction.....	4-1
4.2	Overview.....	4-1
Section 1: Account Servicing Requirements		
4.3	Loan Payments.....	4-1
4.4	Late Fees (PASS Accounts Only).....	4-2
4.5	Late Fee Waivers	4-2
4.6	Accounts 30-Days Past Due.....	4-2
4.7	Conversion From DIAS to PASS	4-3
4.8	Final Loan Payments.....	4-3
Section 2: Processing Tenant Certifications		
4.9	Overview.....	4-5
4.10	Requirements of the Rule.....	4-5
4.11	General Procedures	4-5
Section 3: Loan Payment Processing		
4.12	Overview.....	4-7
4.13	Notification to Borrowers of Payments Due.....	4-7
4.14	Payment Due Dates.....	4-9
4.15	Assessment of Late Fees	4-9
4.16	Procedures for Processing Payments	4-10
4.17	Special Circumstances	4-13
Section 4: Account Tracking and Servicing		
4.18	Overview.....	4-15
4.19	Account Tracking procedures	4-15
4.20	Servicing Accounts 30-Days Past Due	4-16
4.21	Special Circumstances	4-16
Section 5: Final Loan Payment		
4.22	Overview.....	4-17
4.23	Processing Final Loan Payments	4-17

CHAPTER 5: OWNERSHIP AND ORGANIZATION CHANGES	5-1
5.1 Introduction.....	5-1
Section 1: Notification of Changes to Borrower Entity	
5.2 Overview.....	5-1
5.3 Notification of Changes When Changes Have Occurred	5-2
Section 2: Changes in Borrower Entity Requiring Agency Consent	
5.4 Overview of Changes Requiring Agency Consent	5-5
5.5 Requirements for Obtaining Agency Consent	5-5
5.6 Borrower Requests for Consent	5-7
5.7 Agency Review of Borrower Requests.....	5-7
5.8 Documentation of Changes.....	5-8
CHAPTER 6: DETERMINATION OF PROJECT SUITABILITY	6-1
6.1 Introduction.....	6-1
6.2 When To Consider Suitability	6-1
6.3 Key Steps to Completing a Suitability Review.....	6-2
6.4 Regular vs. Expedited Review	6-2
6.5 Determination of Need.....	6-4
6.6 Determination of Obsolescence	6-7
6.7 Determining if the Property Is Suitable	6-9
6.8 Changing a Project's Designation to Non-Program.....	6-11
CHAPTER 7: TRANSFERS OF PROJECT OWNERSHIP	7-1
7.1 Introduction.....	7-1
Section 1: Overview	
7.2 Agency Objective.....	7-1
7.3 Key Analytical Concepts	7-2
7.4 Definition of Transfer	7-3
7.5 Conditions When a Transfer May Occur	7-3
7.6 Key Steps to Completing a Transfer.....	7-4
Section 2: Preliminary Assessment	
7.7 Required documentation for the Initial Transfer Request.....	7-5
7.8 Initial Agency Determination	7-6
7.9 Initial Determination	7-8
Section 3: Processing Transfer Application and Determining Eligibility	
7.10 Receiving a Complete Application	7-11
7.11 Determine Transferee Eligibility	7-11
7.12 Project Eligibility	7-13
7.13 Nonprogram Transfers	7-13

Section 4: Evaluating the Transferee

7.14	Financial Requirements	7-15
7.15	Management Capacity	7-15
7.16	Analysis.....	7-15

Section 5: Evaluating the Project

7.17	Project Compliance and Financial Feasibility	7-17
7.18	Physical Inspection	7-17
7.19	Financial Feasibility.....	7-19
7.20	Analysis.....	7-22

Section 6: Making the Decision

7.21	Assess the Overall Risk and the Impact on the Agency and Tenants.....	7-23
7.22	Complete and Verify Applicable Forms.....	7-23
7.23	Transmit the Document to State Office and OGC for Review	7-24
7.24	Agency Approval.....	7-24
7.25	Agency Disapproval/Rejection	7-25

Section 7: Processing and Closing the Transfer

7.26	Conduct Appraisal of Security Property	7-27
7.27	Determine the Appropriate Interest Rate	7-27
7.28	Processing Requirements	7-27
7.29	Procedures for Processing Transfers.....	7-28
7.30	Monitoring Rehabilitation Work.....	7-34

Attachment 7-A Application Checklist

CHAPTER 8: SECURITY RESTUCTURING REQUESTS 8-1

8.1	Introduction.....	8-1
-----	-------------------	-----

Section 1: Subordinations and Junior Liens

8.2	Overview.....	8-1
8.3	Required Conditions	8-1
8.4	Evaluating Borrower Requests for Subordinations and Junior Liens	8-2
8.5	Procedures for Authorization of Subordinations and Junior Liens.....	8-3
8.6	Post-Approval of Junior Liens	8-6

Section 2: Partial Disposition of Security Property

8.7	Overview.....	8-7
8.8	Allowable Actions Involving the Partial Disposition of Security Property.....	8-7
8.9	Allowable Uses for Proceeds from Partial Disposition of Security Property	8-8
8.10	Required Conditions for Agency Consent	8-8
8.11	Processing Borrower Requests	8-8
8.12	Agency Release of Security	8-10

Section 3: Leasing of Security Property

8.13	Overview.....	8-11
8.14	Leases to Public Housing Authorities.....	8-11
8.15	Lease of a Portion of the Security Property	8-11
8.16	Mineral Leases	8-11

Section 4: Other Liens Against a Property or Other Assets

8.17	Overview.....	8-13
8.18	Required Conditions	8-13
8.19	Agency Procedures	8-13

CHAPTER 9: UNAUTHORIZED ASSISTANCE 9-1

9.1	Introduction.....	9-1
-----	-------------------	-----

Section 1: Types of Unauthorized Assistance

9.2	Overview.....	9-1
9.3	Addressing Unauthorized Assistance	9-1

Section 2: Identifying Unauthorized Assistance

9.4	Overview.....	9-3
9.5	Requirements for Identifying Unauthorized Assistance	9-3
9.6	Methods of Identifying Unauthorized Assistance.....	9-3
9.7	Documentation of Unauthorized Assistance.....	9-4
9.8	Notice to Recipient	9-4

Section 3: Correcting Unauthorized Assistance

9.9	Overview.....	9-7
9.10	Account adjustments – Audit cases	9-7
9.11	Account adjustments – Nonaudit cases.....	9-9

Section 4: Recapture of Unauthorized Assistance to Borrowers

9.12	Overview.....	9-11
9.13	Requirements for Collecting Unauthorized Assistance	9-11
9.14	Agency Recapture of Unauthorized Assistance.....	9-11
9.15	Repayment Methods	9-16
9.16	Full Prepayment.....	9-16

Section 5: Recapture of Unauthorized Assistance to Tenants

9.17	Overview.....	9-17
9.18	Requirements for Collection of Unauthorized Assistance to Tenants	9-17
9.19	Procedures for Collection of Unauthorized Assistance to Tenants	9-17

Section 6: Offsets

9.20	General Offset Requirements.....	9-19
9.21	Administrative Offsets	9-19
9.22	Salary Offsets.....	9-21

9.23	IRS Offsets.....	9-22
------	------------------	------

Section 7: Continuation of Loan Accounts

9.24	Overview.....	9-23
9.25	Requirements for Continuation of Loan Accounts	9-23
9.26	Agency Decision to Continue Account.....	9-23
9.27	Servicing Options in Lieu of Liquidation or Legal Action to Collect	9-23

Section 8: Enforcement

9.28	Overview.....	9-27
9.29	Agency Actions for Enforcement Against Recipients of Unauthorized Assistance.....	9-27

CHAPTER 10: COMPLIANCE VIOLATIONS, DEFAULTS, AND WORK-OUT AGREEMENTS 10-1

10.1	Introduction.....	10-1
10.2	Addressing Compliance Violations and Defaults	1

Section 1: Types of Defaults

10.3	Overview.....	10-2
10.4	Monetary Default.....	10-2
10.5	Nonmonetary Default.....	10-2

Section 2: Conditions of Concern, Compliance Violations, and Defaults

10.6	Agency Classification System	10-5
10.7	Finding	10-6
10.8	Violations	10-6
10.9	Key steps in Addressing Compliance Violations and Defaults	10-6
10.10	Notification to Borrower of Servicing Problems	10-7
10.11	Evaluating the Project	10-11
10.12	Meeting With the Borrower	10-11
10.13	The Problem Case Report	10-11
10.14	Enforcement Actions	10-12

Section 3: Developing a Work-Out Agreement

10.15	Overview of Work-Out Agreements.....	10-13
10.16	Conditions Warranting a Work-Out Agreement.....	10-13
10.17	Eligibility for Work-Out Agreements	10-14
10.18	Content of a Work-Out Agreement.....	10-14
10.19	Conditions Placed on the Borrower	10-14
10.20	Priorities in Meeting Expenditures	10-16
10.21	Length of Term and Authorities	10-16
10.22	Agency Review and Approval [7 CFR 3560.453(b)]	10-17
10.23	Canceling a Work-Out Agreement	10-18

Section 4: Special Servicing Actions

10.24	Special Servicing Actions That May Be a Part of a Work-Out Agreement	10-19
-------	--	-------

10.25 Selecting Servicing Options.....	10-26
Section 5: Monitoring the Work-Out Agreement and Subsequent Servicing	
10.26 Monitoring Work-Out Agreements.....	10-29
10.27 Subsequent Servicing and Impact on Future Loans.....	10-29
Section 6: Special Servicing Note Rate Rents (SNR)	
10.28 Overview of Special Servicing Note Rate Rents	10-31
10.29 SNR Eligibility Requirements	10-31
10.30 Submitting and Processing SNR Requests	10-32
10.31 Changes to and Termination of SNRs	10-32
10.32 Restriction on New Units.....	10-33
Section 7: Enforcement	
10.33 Multi-Family Enforcement Team	10-35
10.34 Requesting Enforcement Team Services	10-35
Attachment 10-A Findings and Violations	
Attachment 10-B Servicing Letter #1	
Attachment 10-C Servicing Letter #2	
Attachment 10-D Servicing Letter #3	
CHAPTER 11: LOAN RESTRUCTURING	11-1
11.1 Introduction.....	11-1
Section 1: Allowable Types of Restructuring	
11.2 Overview.....	11-1
11.3 Loan Agreement or Loan Resolution Consolidation Requirements	11-2
11.4 Loan Consolidation Requirements.....	11-2
11.5 Reamortization Requirements.....	11-2
11.6 Loan Adjustment (Writedown) Requirements.....	11-3
Section 2: Loan Agreement or Loan Resolution/Loan Consolidation	
11.7 Overview.....	11-5
11.8 Borrower Submissions	11-5
11.9 Agency Processing of Borrower Submissions	11-6
Section 3: Loan Reamortization	
11.10 Overview.....	11-9
11.11 Acceptable Uses of Reamortizations	11-9
11.12 Borrower Submissions	11-10
11.13 Agency Review and Approval	11-10
11.14 Additional Evaluation for Requests Involving Delinquencies or Compliance Violations.....	11-12
11.15 Processing Reamortizations.....	11-13

Section 4: Loan Writedowns	
11.16 Overview.....	11-17
11.17 Allowable Uses	11-17
11.18 Borrower Submissions.....	11-17
11.19 Agency Review and Approval.....	11-18
11.20 Processing Writedowns.....	11-18
CHAPTER 12: ACCOUNT LIQUIDATION	12-1
12.1 Introduction.....	12-1
Section 1: Making the Decision to Liquidate	
12.2 An Overview of Liquidation Options	12-1
12.3 Net Recovery Value.....	12-2
12.4 Basic Security Loss.....	12-6
12.5 Account Liquidation	12-6
Section 2: Liquidation Procedures	
12.6 Overview.....	12-9
12.7 Voluntary Conveyance.....	12-9
12.8 Foreclosure.....	12-11
12.9 Acquisition of Chattel Property	12-15
Section 3: Debt Settlement	
12.10 Borrower Eligibility	12-17
12.11 Application Requirements	12-17
12.12 Compromise and Adjustment	12-18
12.13 Charge-Off	12-19
12.14 Cancellation	12-19
12.15 Referral to the Department of Treasury	12-20
CHAPTER 13: OTHER SPECIAL CASES	13-1
13.1 Introduction.....	13-1
Section 1: Property Issues	
13.2 Overview of Property Issues.....	13-1
13.3 Abandonment.....	13-2
13.4 Valueless Liens	13-4
13.5 Other Security	13-5
13.6 Obtaining Additional Security to Protect Agency Interests.....	13-5
13.7 Security Issues Involving Projects With Participation Loans.....	13-7
Section 2: Borrower Issues	
13.8 Overview of Borrower Issues	13-9
13.9 Requirements for Addressing Borrower Issues	13-9

CHAPTER 14: MANAGEMENT AND DISPOSAL OF REO PROPERTY 14-1

14.1	Introduction.....	14-1
14.2	Overview of the Chapter	14-1

Section 1: Management of Custodial and REO property

14.3	Overview of the Section.....	14-2
14.4	Management Methods and Contracts.....	14-2
14.5	Taking Possession.....	14-3
14.6	Inspecting and Securing Custodial and REO Property	14-5
14.7	Disposition of Non-Security Property	14-6
14.8	Taxes and Insurance.....	14-7
14.9	Environmental Requirements.....	14-8
14.10	Management of Hazardous Substances	14-11
14.11	Physical Maintenance and Repair	14-12
14.12	Special Uses of REO	14-14

Section 2: Disposition of REO Property

14.13	Overview of the Section.....	14-17
14.14	Pricing and Sales Schedules.....	14-17
14.15	Marketing and Advertisement.....	14-19
14.16	Special Marketing Techniques.....	14-21
14.17	REO Property Not Meeting Physical Standards	14-21
14.18	Disposition by Public Drawing	14-23
14.19	Disposition by Sealed Bid or Auction	14-26
14.20	Negotiated Sale	14-29
14.21	Disposal of Property for Special Purposes.....	14-29
14.22	Disposal as Chattel or Salvage.....	14-29

Section 3: Environmental Requirements

14.23	Overview.....	14-31
14.24	Property Located Within a Special Flood or Mudslide Hazard Area or Contains Wetlands	14-31
14.25	Coastal Barrier Resources Systems	14-32
14.26	National Register of Historic Places	14-32
14.27	Protective Covenants and Easements.....	14-32
14.28	Reportable Underground Storage Tanks.....	14-33
14.29	Management of Hazardous Substances and Petroleum Products	14-33
14.30	Lead-Based Paint	14-34

Section 4: Processing and Closing

14.31	Overview.....	14-35
14.32	Special Notices at Sale.....	14-35
14.33	Inspection.....	14-35
14.34	Prorating Real Estate Taxes and/or Assessments	14-35
14.35	Commissions.....	14-36
14.36	Transferring Title	14-36

14.37 Reporting Sale.....	14-36
---------------------------	-------

Section 5: Processing Credit Sales on Non-Program Terms

14.38 Overview of Section	14-37
14.39 Terms of a Non-Program Credit Sale	14-37
14.40 Accepting Offers.....	14-37
14.41 Approval	14-38
14.42 Closing Sale	14-38
14.43 Servicing the Non-Program Loan	14-39

Attachment 14-A Sample Statement of Work for Property Management Contract

Attachment 14-B Underground Storage Tanks That Must Be Reported

Attachment 14-C Memorandum of Understanding Between United States Department of Agriculture (USDA) and Department of Health and Human Services (HHS)

Attachment 14-D Memorandum of Understanding Between the Federal Emergency Management Agency and the Farmers Home Administration

Attachment 14-E Covenant Regarding Hazardous Substance Remediation

CHAPTER 15: PROJECT PRESERVATION 15-1

15.1 Introduction.....	15-1
15.2 Overview of the Chapter.....	15-1

Section 1: Preservation and Eligibility for Prepayment

15.3 Overview of the Section.....	15-3
15.4 Borrowers Eligible to Request Prepayment.....	15-3
15.5 Meeting With the Borrower	15-3
15.6 Tenant Notification Requirements.....	15-4
15.7 Requirements for Prepayment Requests	15-6
15.8 Receipt of Prepayment Requests	15-6
15.9 Completeness Review	15-6
15.10 Determination of Prepayment Feasibility	15-7
15.11 Eligibility Determination	15-9

Section 2: Loans Closed Before 1979 or Loans with No Restrictive Agreements

15.12 Prepayment Waiting List	15-11
15.13 Making the Incentive Offer—Overview	15-11
15.14 General Incentive Offer	15-11
15.15 Specific Incentive Requirements	15-11
15.16 Types of Incentives	15-12
15.17 Development of the Incentive Offer	15-14
15.18 Agency Offer of Incentives.....	15-14
15.19 Borrower Acceptance of Incentives and Subsequent Actions	15-15
15.20 Insufficient Funding for Incentives.....	15-16
15.21 Borrower Rejection of Incentive Offer and Subsequent Actions	15-16
15.22 Determination of Prepayment Impact.....	15-19

Section 3: Loans Closed Between 1979 and 1989 with a Restrictive Agreement

15.23	Applicability of Section	15-23
15.24	Request Borrower To Remain in Program.....	15-23
15.25	Sale to a Nonprofit Organization	15-23
15.26	Establishing the Project Value	15-24
15.27	Marketing Requirements.....	15-24
15.28	Selecting an Offer	15-24
15.29	Loans Made by the Agency or Other Sources to Nonprofit Organizations and Public Agencies.....	15-26
15.30	Post-Sale Requirements	15-26
15.31	Requirements for Borrowers if an Acceptable Purchaser Is Not Found.....	15-27

Section 4: Special Circumstances

15.32	Properties Under Bankruptcy or Foreclosure	15-29
15.33	Advance Payment of Accounts.....	15-29

Attachment 15-A Overview of Prepayment Process**Attachment 15-B Explanation of Incentive Offers****Attachment 15-C Prepayment Request Application****Attachment 15-D Sample Letters to Tenants****Attachment 15-E Incentive Calculation Worksheet and Directions****Attachment 15-F Restrictive-Use Provisions****Endnotes****APPENDICES**

Appendix 1	Text of 7 CFR Part 3560
Appendix 2	Text of 7 CFR Part 11
Appendix 3	Forms Referenced in This Handbook
Appendix 4	Letters Referenced in This Handbook

